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July 17, 1975

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EGYPT-ISRAEL

Egyptian officials now seem to be taking a somewhat harder line on what Cairo will require to permit the continued presence of UN forces in the Sinai beyond July 24, when their mandate expires.

In announcing Egypt's decision on Tuesday not to extend the mandate, Foreign Minister Fahmi had implied that Egypt might not object if the UN Security Council extended it without explicit Egyptian approval. Later statements by Fahmi and other officials, however, indicate that Egypt may insist on some new substantive action by the Security Council.



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At his press conference on Tuesday, Fahmi suggested obliquely that economic or other sanctions might be involved against Israel. The Egyptians may insist that the imposition of sanctions—which they could interpret as tangible pressure on Israel to “implement” a withdrawal—is the only Security Council action that would induce them to permit continuation of the UN presence in Sinai.

Fahmi himself took a more categorical position in a statement issued yesterday in response to Israel's request for a six-month extension. Using language that left less room for flexibility than anything he said on Tuesday, he labeled the Israeli request ridiculous unless it implied that a withdrawal would precede the UN extension. For now, Fahmi declared, the UN forces “are stationed on Egyptian territory and cannot remain without the approval of the Egyptian government.”



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Tel Aviv has so far continued to take a low-key approach in reacting to the Egyptian statements. Prime Minister Rabin's handling of the issue in the Knesset yesterday was restrained, and he reiterated Israel's determination to continue to seek another interim agreement with Egypt.

Rabin referred briefly to Cairo's recent statements concerning the UN mandate extension in the course of his response to an opposition motion to debate the status of the current indirect negotiations with Egypt. He reminded his listeners that Israel's adherence to the January 1974 disengagement agreement is based on reciprocal Egyptian adherence. Characterizing the UN force as an "integral" part of that agreement, the Prime Minister called on Cairo to continue to respect the existence and authority of the force if it wants to preserve the agreement. He warned that "whoever" wants the current negotiations to continue "in an appropriate atmosphere" should refrain from any action that might increase tension.

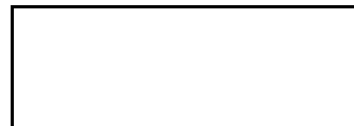
Several Knesset members told a US embassy official yesterday they saw in the government's reaction a veiled warning that, inasmuch as responsibility for observing the disengagement agreement rests with both sides, Cairo should not expect Israel to honor it if Egypt does not keep its end of the bargain.

The Israeli press continues to emphasize that Cairo's pressure tactics will not stampede Tel Aviv into concluding a new interim agreement. Commentators are emphasizing that there may be an element of bluff in the Egyptian position; one of Israel's largest dailies editorialized yesterday that only "fools" would take seriously Egypt's threat not to extend the UN mandate.

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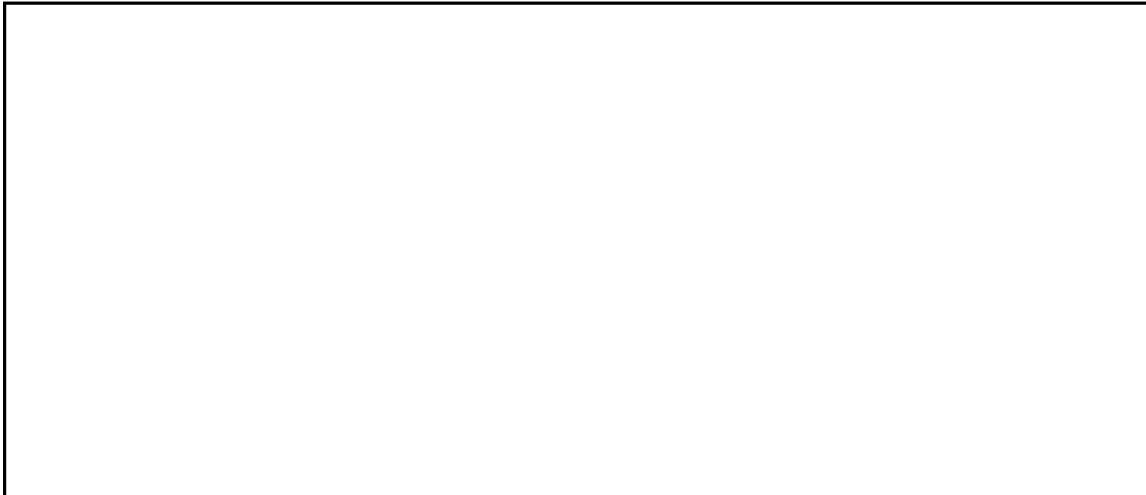
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TURKEY-US

The Turkish National Security Council's recommendations announced yesterday appear to give Prime Minister Demirel some flexibility to hold off on moves against US facilities if the US arms embargo is not lifted by today. The council recommended that the government immediately initiate negotiations with the US and "apply measures whenever it finds them appropriate."



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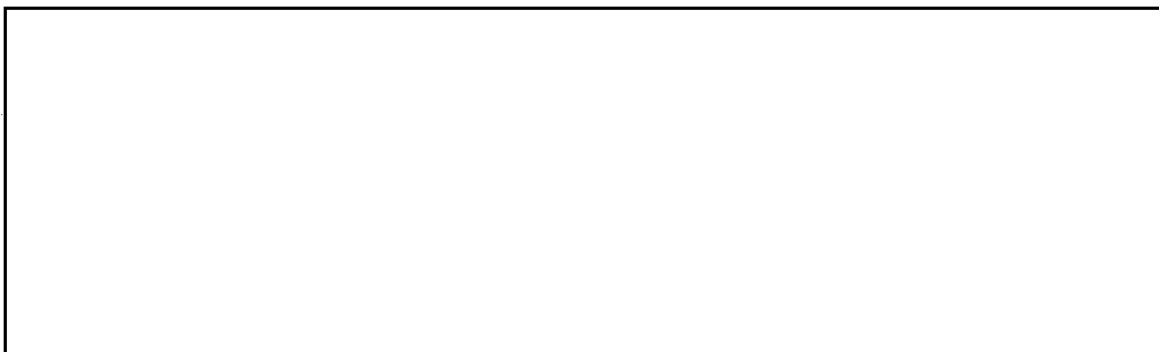
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**CANADA**

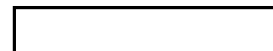
Ottawa is considering ways to improve Canada's international trade position. The key measure being considered is a scheme to provide inflation insurance to exporters of manufactured goods. Under this program, Canadian firms would be at least partly reimbursed for cost increases incurred after export contracts are negotiated.

If adopted, the move would strengthen the competitive position of Canadian manufacturers by allowing them to bid at fixed prices. Canadian firms argue that they need help because soaring wage costs have impaired their ability to compete with US and other foreign firms. The wage spiral has already pushed hourly wage rates in many Canadian industries above US levels, a marked change from the early 1970s when Canadian firms enjoyed a wage advantage of 10-15 percent.

Ottawa is concerned that its loss of competitiveness will make it difficult to reduce its large trade deficit. During the first three months of this year, the deficit ran at an annual rate of \$2.7 billion. The usual large deficit for autos and other manufactured goods increased to a yearly rate of \$8.9 billion, up \$1 billion from last year. Part of the swing reflects Canada's weakened position in the US market.

The trade deficit has resulted in considerable downward pressure on the Canadian dollar, but the Trudeau government has been reluctant to let its currency depreciate too far, for fear of aggravating domestic inflation. During the past year, the Canadian dollar has depreciated 6 percent relative to the US dollar. In recent months, Ottawa has been intervening in the foreign exchange market to cushion the slide. The Central Bank has sold about \$590 million thus far in 1975 in support of the Canadian dollar.

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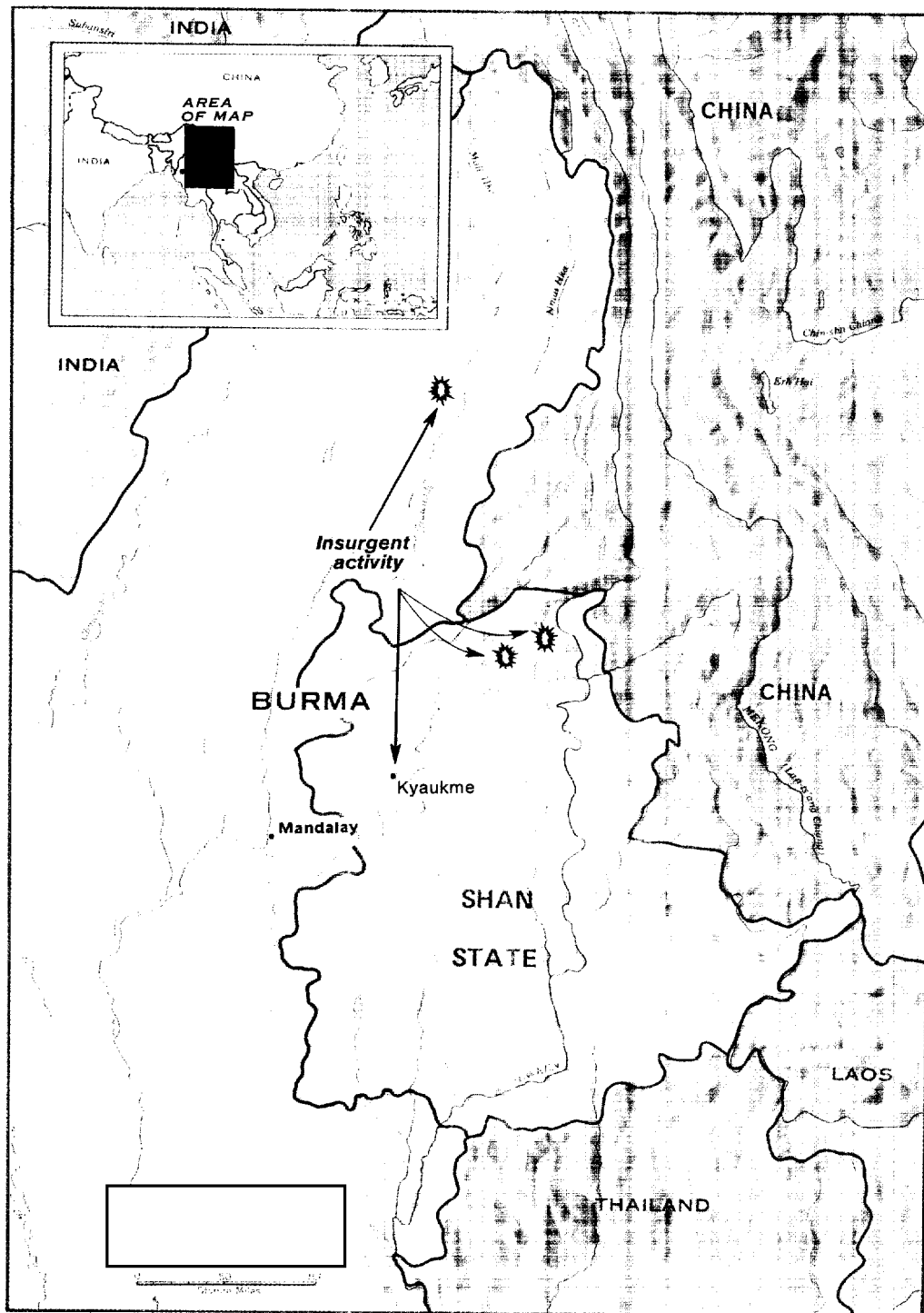
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BURMA

Fighting is continuing between the army and communist insurgents in northeastern Burma. The action began last month when communist units moved across the Salween River and attempted to establish a foothold to the west of their normal operating area.

Despite government claims that the army had driven the insurgents back, communist troops apparently are still operating west of the river. As a diversionary tactic, they have staged attacks on government outposts to the north, near the China border. Small communist demolition teams have penetrated much farther west and have been interdicting roads and disrupting government operations near Kyaukme.

The insurgents have made only minor gains, and the army may eventually push them back again. During the past year and a half, the army has been able to block several efforts by the communists to expand their base in eastern Shan State.

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JAPAN

A terrorist threw an explosive device at Japanese Crown Prince Akihito today in Okinawa, the site of the International Oceanic Exposition—Expo 75—but the Prince escaped uninjured. The attack was almost certainly the work of radical leftists, out to dramatize opposition to US bases in Okinawa and embarrass the Japanese government.

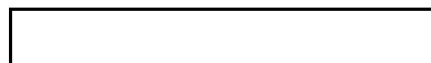
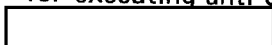
Five terrorist incidents have occurred in Tokyo since July 12. Few instigators were directly involved, however, and no substantial injuries or damage resulted. The incidents were considered a prelude to the terrorism by ultraradical groups expected during Expo 75 and the visit to Okinawa by the Crown Prince.

Tight security precautions are being implemented, including attempts to keep radicals under close scrutiny. About 2,500 specially trained Japanese riot police will be sent to Okinawa to deal with violence.

Japanese officials view the situation in Okinawa as delicate. The strong feelings against both Japan and the US bases on the islands could be aggravated by an incident involving American forces.



The incidents at Expo 75 may give some measure of the ultraleft's capability for executing anti-US or antigovernment actions.



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FOR THE RECORD

ISLAMIC CONFERENCE: The Islamic foreign ministers' conference passed a resolution at its final plenary session calling for the expulsion of Israel from the UN, UN specialized agencies, and any conference held under UN auspices. Saudi Arabia and Egypt tried unsuccessfully to bury the issue in a subcommittee to "keep the Middle East situation under review."

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LEBANON: Prime Minister Karami on July 15 won a parliamentary vote of confidence more quickly and by a wider margin than any Lebanese prime minister in recent years. This demonstrates the eagerness of the country's normally disputatious politicians to calm the tense political and security situation in Beirut. The vote does not reflect special enthusiasm for the substance of Karami's policy statement, which was unusually brief and commonplace.

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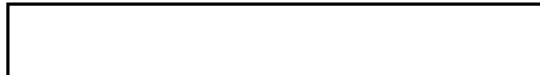
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